

Message Text

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ACTION EUR-12

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P R 080500Z JUL 77
FM AMEMBASSY ANKARA
TO SECSTATE WASHDC PRIORITY 8076
INFO AMEMBASSY ATHENS
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY NICOSIA
AMEMBASSY PARIS
AMCONSUL ISTANBUL
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AMCONSUL IZMIR
USMISSION NATO
USMISSION USUN NEW YORK
USDOCOSOUTH NAPLES
EUCOM
USCINCEUR
CINCUSAFE
USDOCOLANDSOUTHEAST IZMIR
DIA WASHDC

C O N F I D E N T I A L SECTION 1 OF 3 ANKARA 5120

USOECD, USEEC

E.O. 11652: GDS
TAGS: EFIN, TU
SUBJECT: TURKISH FOREIGN EXCHANGE PROBLEMS: UPDATE

REF: (A) ANKARA 4778 (DTG 230635Z JUN 77), (B) ANKARA TOFAS 116
(DTG 051029Z JUL 77)(NOTAL), (C) ANKARA 3385 (DTG 040938Z MAY 77)
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SUMMARY: FOREIGN BANKS DEMANDED REPAYMENT OF ABOUT 70 PERCENT
OF TURKISH SHORT-TERM CONVERTIBLE LIRA LOANS MATURING IN JUNE.
CENTRAL BANK WAS UNABLE TO MEET REPAYMENT DEMANDS ON TIME AND
HAD TO DRAW DOWN \$100 MILLION STANDBY CREDIT RECENTLY ARRANGED
WITH BANK FOR INTERNATIONAL SETTLEMENTS. NEW YORK BANKS ARE
REFUSING TO RENEW SHORT-TERM FINANCING FACILITIES EXTENDED TO

CENTRAL BANK UNLESS IT ELIMINATES OVERDRAFTS WITH THEM. THEY ARE ALSO REFUSING TO ACCEPT NEW LETTERS OF CREDIT FROM TURKISH BANKS. CENTRAL BANK GOVERNOR SADIKLAR THINKS THEY ARE NOT BEING HELPFUL. THESE DEVELOPMENTS EMERGED IN SERIES OF RECENT CONVERSATIONS OF E/C COUNSELOR WITH GOVERNOR AND GENERAL DIRECTOR OF FOREIGN EXCHANGE DEPARTMENT, CENTRAL BANKPEGKT AND WITH VISITING REPRESENTATIVE OF BANKERS TRUST. END SUMMARY.

1. IN SERIES OF RECENT CONVERSATIONS, E/C COUNSELOR REVIEWED TURKISH FOREIGN EXCHANGE PROBLEMS WITH GOVERNOR OF CENTRAL BANK, GENERAL DIRECTOR OF ITS FOREIGN EXCHANGE DEPARTMENT, AND VISITING REPRESENTATIVE FROM LONDON OFFICE OF BANKERS TRUST COMPANY.

2. DEMAND FOR PAYMENT OF CONVERTIBLE LIRA LOANS. DEMAND FOR REPAYMENT OF CONVERTIBLE LIRA DEPOSITS (CLD'S) UPON MATURITY BECAME CONSIDERABLE PROBLEM IN JUNE, ACCORDING TO YAVUZ CANEVI, GENERAL DIRECTOR, FOREIGN EXCHANGE DEPARTMENT, TURKISH CENTRAL BANK. IN PERIODIC REVIEW OF MANAGEMENT OF TURKISH FOREIGN EXCHANGE SHORTAGE WITH E/C COUNSELOR JULY 5, CANEVI SAID THAT DURING PERIOD JUNE 1-28, NET FLOW OF CLD'S WAS MINUS \$60 MILLION (\$36.4 MILLION INFLOW). CLD'S AMOUNTING TO \$136 MILLION MATURED DURING FULL MONTH OF JUNE; HOLDERS DEMANDED REPAYMENT RATHER THAN RENEWAL OF \$96.4 MILLION JUNE 1-28, OR ROUGHLY 71 PERCENT OF THIS AMOUNT. IN PERIOD BEFORE FOREIGN EXCHANGE SHORTAGE BECAME CRITICAL, CENTRAL BANK EXPECTED MONTHLY DEMAND FOR REPAYMENT OF ONLY 20-25 PERCENT OF MATURING LOANS. CONFIDENTIAL

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3. CANEVI ADMITTED THERE HAD BEEN DELAYS IN MAKING REPAYMENTS IN JUNE. REPRESENTATIVE OF CANADIAN-AMERICAN BANK (MAJORITY US-OWNED, WITH HEADQUARTERS IN LUXEMBOURG) TOLD OFFICER OF CONGEN ISTANBUL JULY 1 THAT TWO SEPARATE DEPOSITS OF \$1.3 MILLION EACH MADE BY HIS BANK, BOTH MATURING JUNE 6, WERE STILL UNPAID ON THAT DATE EVEN THOUGH IS BANKASI, TURKISH CORRESPONDENT BANK, HAD APPLIED FOR TRANSFER AND DEPOSITED LIRA EQUIVALENT WITH CENTRAL BANK ON JUNE 1. CENTRAL BANK WAS THEREFORE FORCED LAST WEEK TO DRAW DOWN MOST OF STANDBY CREDIT OF \$100 MILLION RECENTLY OBTAINED FROM BANK FOR INTERNATIONAL SETTLEMENTS (REF A) CANEVI SAID. WITH THIS CREDIT, CENTRAL BANK HAS NOW MET ALL OUTSTANDING DEMANDS FOR CLD REPAYMENTS (INCLUDING, PRESUMABLY, THAT OF CANADIAN-AMERICAN BANK). CANEVI DID NOT DISCUSS WHERE TURKEY WOULD OBTAIN ADDITIONAL FUNDS TO MEET CLD REPAYMENT DEMANDS IN JULY IF THESE SHOULD CONTINUE AT JUNE PACE.

4. CANEVI SAID THAT LARGEST HOLDERS OF CLD'S WERE NOT DEMANDING REPAYMENT. SOME SMALLER BANKS, HOWEVER, HAD BEEN CALLING IN THEIR LOANS. GOVERNMENT HAD USED EXPORT AND ALL OTHER AVAILABLE PROCEEDS TO PAY OFF CENTRAL BANK OVERDRAFTS WITH SMALLER

CORRESPONDENT BANKS. STATEMENT IMPLIED THAT THIS EFFORT WAS
INTENDED TO MAINTAIN CONFIDENCE OF LITTLE BANKS WHICH ARE ALSO
MORE NERVOUS CLD CREDITORS.

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5. CANEVI PROVIDED FOLLOWING STATISTICAL SUMMARY OF CLD MOVEMENTS
AND STRUCTURE. FOR PERIOD JANUARY 1-JUNE 28, CLD INFLOW TOTALLED
\$624.4 MILLION AND OUTFLOW \$302.4 MILLION, FOR NET INFLOW OF
\$322 MILLION. CLD'S WORTH ABOUT \$655 MILLION WILL MATURE DURING
REMAINING MONTHS OF THIS YEAR (MILLIONS OF DOLLARS): JULY 125,
AUGUST 145, SEPTEMBER 115, OCTOBER 80, NOVEMBER 90, DECEMBER 100.
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OF THE PRESENTLY OUTSTANDING \$2,015 MILLION IN CLD'S, \$300 MILLION WILL NOT COME DUE UNTIL 1980-87.

6. BIG BANKS EXERCISE CAUTION. ALTHOUGH NOT CALLING IN CLD'S, BIG BANKS AS WELL AS SMALL ONES ARE, UNDERSTANDABLY, EXERCISING CAUTION WITH RESPECT TO OVERDRAFTS AND LETTERS OF CREDIT.

7. CANEVI SAID THAT CENTRAL BANK OVERDRAFTS NOW REMAIN ONLY WITH THE BIGGER BANKS; HE CITED MAJOR NEW YORK BANKS, MENTIONING CITIBANK BY NAME, DEUTSCHEBANK, AND SOME SWISS BANKS AS EXAMPLES. SOME NEW YORK BANKS, HE ADDED, WERE "MAKING IT DIFFICULT" FOR CENTRAL BANK BY REFUSING TO EXTEND SHORT-TERM (30-DAY) FINANCING FACILITIES EXCEPT UPON CONDITION THAT IT ELIMINATE OVERDRAFTS, WHICH AMOUNT TO \$10-30 MILLION PER BANK.

8. REPRESENTATIVE OF BANKERS TRUST VISITING EMBASSY JULY 6 VERIFIED THIS INFORMATION. HE SAID THAT SOME AMERICAN BANKS, INCLUDING HIS OWN, WANTED TO UTILIZE LEVERAGE PROVIDED BY THESE EXTENSIVE SHORT-TERM FACILITIES TO CLEAN UP OVERDRAFTS. LOANS, IN FACT, HAD BEEN MADE ON SPECIFIC CONDITION THAT THERE SHOULD BE NO OVERDRAFTS AND BANKS REGARDED THEM AS IMPOSITION.

9. NEW YORK BANKS, HE SAID, FEEL THAT PROBLEM IS MANIFESTATION OF FAILURE OF CENTRAL BANK AND MINISTRY OF FINANCE TO MAINTAIN ADEQUATE COMMUNICATIONS. INSTEAD OF BEING CONFRONTED WITH OVERDRAFTS, BANKS WOULD PREFER IT IF TURKS WERE TO GIVE THEM CLEAR ACCOUNTING OF THEIR NEEDS SO THAT SUFFICIENT REGULAR SHORT-TERM FINANCING COULD BE ARRANGED.

10. DEUTSCHEBANK, WHERE CENTRAL BANK IS ALSO OVERDRAWN, HAS FOUND ITS OWN WAY OF REPLENISHING TURKISH ACCOUNT, CANEVI SUGGESTED. IT PARTICIPATED ACTIVELY IN ARRANGING RECENT SALE OF 450,000
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TONS OF WHEAT TO GERMAN DEALER TOEPFER (REF B). PRE-FINANCING ARRANGEMENTS, EXPECTED TO BE COMPLETED NEXT WEEK, WILL PROVIDE IMMEDIATE PAYMENT OF TOTAL AMOUNT OF SALE TO DEUTSCHEBANK FOR BENEFIT OF CENTRAL BANK ACCOUNT.

11. BANKERS TRUST REPRESENTATIVE COMMENTED THAT OVERDRAFTS WER LARGE IN NEW YORK AND LONDON, SMALL IN TOKYO, MILAN, AND PARIS.

12. HE ADDED THAT NEW YORK BANKS WERE REFUSING TO ACCEPT NEW LETTERS OF CREDIT FROM TURKISH BANKS OR TO EXTEND UNUTILIZED

LETTERS OF CREDIT UPON EXPIRATION.

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13. CENTRAL BANK GOVERNOR SADIKLAR BLAMES U.S. AGAIN. DURING CALL
ON HIM BY E/C COUNSELOR JULY 6 IN CONNECTION WITH ANOTHER MATTER,
TAYYAR SADIKLAR, GOVERNOR OF CENTRAL BANK, REPEATED THEME OF AN
EARLIER VISIT (REF C). CITING DEMANDS OF NEW YORK BANKS THAT
CENTRAL BANK ELIMINATE OVERDRAFTS AS FURTHER EVIDENCE OF HIS
POINT OF VIEW, HE CLAIMED EXISTENCE OF "FEELING AMONG ALL
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EDUCATED PEOPLE IN TURKEY THAT U.S. HAS LEFT US" WHEN IT APPLIED POST-CYPRUS EMBARGO ON US MILITARY SALES TO TURKEY. COUNSELOR SUGGESTED THAT BLAME WAS NOT SO EASILY ASCRIBABLE IN COMPLEX CYPRUS MATTER: MANY IN U.S. BELIEVED THAT TURKEY HAD USED U.S.-SUPPLIED MILITARY EQUIPMENT IN ITS ACTION ON CYPRUS IN VIOLATION OF TERMS UNDER WHICH IT HAD BEEN PROVIDED. SHE ADDED THAT IT APPEARED TO HER THAT NEW YORK BANKS HAVE BEEN EXCEEDINGLY HELPFUL TO CENTRAL BANK DURING PERIOD OF ACUTE FOREIGN EXCHANGE SHORTAGE, EVEN EXTENDING EXTENSIVE SHORT-TERM FINANCING FACILITIES. SADIKLAR SMILED IN WAY SUGGESTING THAT HE HAD NOTHING FURTHER TO OFFER IN DEFENSE OF HIS THESIS. IN SINGULARLY BLYTHE COMMENT, GOVERNOR SAID THAT TURKEY WOULD BE ABLE TO RECOVER FROM "ALL ITS DIFFICULTIES" IN 1-2 MONTHS AFTER PERMANENT GOVERNMENT IS FORMED.

14. COMMENT. WITH TOTALLY INADEQUATE RESOURCES, TURKISH CENTRAL BANK IS FIGHTING ON A DAY-BY-DAY BASIS TO JUGGLE TURKEY'S MOST PRESSING PAYMENTS DEMANDS. EMBARGO ON TRANSFERS OF FOREIGN EXCHANGE TO PAY FOR ALL BUT MOST ESSENTIAL IMPORTS IS SOONER OR LATER GOING TO RUN DOWN INVENTORIES AND SLOW INDUSTRIAL OUTPUT. THERE IS LITTLE REASON TO BELIEVE THAT CLD FLOWS WILL BE MORE FAVORABLE IN JULY THAN THEY WERE IN JUNE. IN ABSENCE OF GOVERNMENT ABLE TO MAKE POLICY COMMITMENTS, THERE IS NO WAY FOR TURKEY TO OBTAIN STOP-GAP CREDITS ON SCALE LARGE ENOUGH TO MEET ITS NEEDS.

15. PRIME MINISTER ECEVIT'S CARETAKER GOVERNMENT COULD BE IN OFFICE FOR SOME WEEKS IF JUSTICE PARTY LEADER DEMIREL CANNOT COME TO TERMS WITH HIS DIFFICULT POTENTIAL COALITION PARTNERS. IN MEANTIME, NO SIGNIFICANT CORRECTIVE ECONOMIC MEASURES CAN BE TAKEN. WE MAY EXPECT TO WITNESS INCREASING UNEASINESS AMONG TURKEY'S CREDITORS AS THIS WAITING PERIOD PROCEEDS.

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16. SITUATION, HOWEVER, CAN PROBABLY GO ON AS IT IS GOING FOR A WHILE YET. BANKS WITH BIGGEST EXPOSURE IN TURKEY'S CONVERTIBLE LIRA DEPOSITS HAVE APPARENTLY EXTENDED THEMSELVES TO BE OF ASSISTANCE, AS SHORT-TERM FACILITIES OFFERED BY NEW YORK BANKS SUGGEST. BANKERS TRUST REPRESENTATIVE SAID THAT HE HAD HEARD NO TALK YET IN BANKING CIRCLES ABOUT REFINANCING TURKISH DEBTS. (HE SAID THAT IN GENERAL BANKS PREFER REFINANCING ON COMMERCIAL BASIS TO RESCHEDULING, WHICH USUALLY CARRIES EASIER TERMS DICTATED BY POLITICAL RATHER THAN BUSINESS CONSIDERATIONS.)
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